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Message Text

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ORIGIN COME-00

INFO OCT-01 SIG-01 ISO-00 IO-13 AF-10 ARA-10 EA-07
EUR-12 NEA-10 AGRE-00 CEA-01 CIAE-00 DODE-00
EB-07 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-01 EPG-02 AID-05 SS-15 STR-04
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00
OMB-01 XMB-02 OIC-02 /142 R

DRAFTED BY COM/ BIEPR/OTP/IND/RFRANCIS/KG
APPROVED BY STR/ WBKELLY,JR
COM/BIEPR/OTP/IND/CJOHNSON
EX IM/JTALBOT
EB/OT/TA:RWHITE
LABOR/WRENISON
STR/BWILSON
TREASURY/EBARBER
----------011567 211219Z /45
R 202332Z JUL 77
FM SECSTATE WASHDC
TO USMISSION GENEVA
INFO AMEMBASSY BERN
AMEMBASSY OTTAWA
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO
AMEMBASSY HELSINKI
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY BRUSSELS
AMEMBASSY PARIS
USMISSION GENEVA

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E.O. 11652: N/A

TAGS: GATT, ETRD

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SUBJECT: GATT WP ON EXPORT INFLATION INSURANCE, JULY 25

REF: (A) GENEVA 5608, (B) STATE 129025, (C) STATE 144599
(D) GENEVA 5858

1. WE APPRECIATE MISSION EFFORTS TO COORDINATE WITH OTHER DELEGATIONS IN ORDER TO ENSURE THAT WP CAN CONCLUDE AT JULY 25 MEETING WITH REPORT ACCEPTABLE TO U.S. RESULTS OF DISCUSSIONS REPORTED REFTELS (A) AND (D) HAVE BEEN CONSIDERED AND FOLLOWING IS U.S. POSITION ON POSSIBLE PROBLEM ISSUES. UNLESS OTHERWISE INSTRUCTED, MISSION SHOULD USE THIS TELEGRAM AND INSTRUCTIONS CONTAINED IN REFTELS (B) AND (C) AS U.S. POSITION FOR JULY 25 MEETING.

2. EXCHANGE RATE INSURANCE. WE HAVE SERIOUS DIFFICULTY WITH ABBOTT'S SUGGESTION REF (D) OF "BALANCE" IN THE WP REPORT. SINCE THE WP, AFTER ALL, WAS FORMED TO DEAL PRIMARILY WITH EII, DISCUSSION OF EXCHANGE RATE GUARANTEE SCHEMES MUST BE SECONDARY AND MUST NOT HAVE EQUAL PROMINENCE, EVEN IN LENGTH OF WP REPORT, WITH DISCUSSION OF EII. OUR PREFERRED POSITION REMAINS AS CONTAINED REF (B). THE EC WOULD MERELY CITE IN THE FINAL REPORT OF THE WP ITS

CONCERN REGARDING EXCHANGE RATE INSURANCE SCHEMES AND THE NEED FOR THE CPS TO CONSIDER EXAMINING THESE ELSEWHERE IN LIMITED OFFICIAL USE

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THE GATT. WE COULD AGREE TO THIS. WE CONTINUE TO REGARD THE SCHEMES AS OUTSIDE THE MANDATE OF THE WP BUT WOULD NOT OBJECT TO LIMITED DISCUSSION IF THOSE PARTIES MAINTAINING SCHEMES AGREED. THIS SEEMS HIGHLY UNLIKELY IN VIEW OF SWISS AND AUSTRIAN COMMENTS TO MISSION REPORTED REF (A). A PASSIVE ACCEPTANCE OF SUCH A LIMITED DISCUSSION IS AS FAR AS WE CAN GO. IF ABOVE SCENARIO PROVES IMPOSSIBLE DUE TO BRITISH AND FRENCH PRESSURE ON EC, WE FEEL POSSIBLE SOLUTION IS FOR EC TO INCORPORATE AN ABBREVIATED SUMMARY OF ABBOTT'S STATEMENT IN BODY OF REPORT. WE COULD NOT SUPPORT ANY STATEMENT ASSERTING THAT EXCHANGE RATE INSURANCE IS DIRECTED TOWARD COST INFLATION AS IS EII OR IS SIMILAR TO EII IN EFFECT. WE WOULD BE WILLING, HOWEVER, TO AGREE IN REPORT CONCLUSION THAT THERE IS THE POSSIBILITY THAT EXCHANGE RATE INSURANCE SCHEMES HAVE A DISTORTIVE EFFECT ON TRADE AND THAT THEY SHOULD BE EXAMINED ELSEWHERE IN THE GATT.

3. DANISH AND DUTCH SCHEMES. WE DO NOT WISH TO NOTIFY THESE OR INITIATE ANY EXAMINATION OF THEM IN THIS WP. MISSION MAY, HOWEVER, AS APPROPRIATE IN ANY DISCUSSION OF TRADE DISTORTING EFFECTS OF EII SCHEMES NOTE THAT SOME

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OTHER NATIONS HAVE ADOPTED SO-CALLED DEFENSE MEASURES AND
THAT PROLIFERATION OF SUCH DEVICES IS ONE OF OUR CONCERNS
AS WE HAVE STATED ON NUMEROUS OCCASIONS.

4. SELF-FINANCING SCHEMES. WE FEEL THAT THIS QUESTION IS
THE MOST DIFFICULT OF THOSE STILL FACING US. IT IS MOST
IMPORTANT THAT THE U.K. POSITION STATING THAT AN EII
SCHEME IS LEGAL UNDER ARTICLE XVI IF IT IS EXPECTED TO BE
SELF-FINANCING OVER THE LONG-TERM NOT RECEIVE SIGNIFICANT
SUPPORT. THIS WOULD, OF COURSE, OPEN THE DOOR TO ANY
COUNTRY WISHING TO INSTITUTE AN EII SCHEME, SINCE IT COULD
OPERATE AT A DEFICIT (SUBSIDIZED) FOR SEVERAL YEARS AND
STILL BE ASSERTED AS LEGAL BECAUSE OF EXPECTATION OF
SELF-SUFFICIENCY OVER LONG-RUN. WE FEEL THAT IN VIEW OF
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BRITISH POSITION, OUR TACK SHOULD REMAIN AS IN PARA 4 OF
REF (C). WE SHOULD CONTINUE TO DENY PREMISE THAT THESE
SCHEMES ARE OR CAN BE SELF-FINANCING, POINTING TO WP
EVIDENCE THAT THEY ARE NOT BY THEIR VERY NATURE. SUCH A
FORMULATION SHOULD ALLOW OTHER DELS INCLUDING CANADA TO
AVOID HAVING TO ADDRESS THE THEN THEORETICAL QUESTION OF
WHETHER A COMPLETELY SELF-FINANCING SCHEME WOULD BE LEGAL.

"
5. OUR POSITIONS ON OTHER ISSUES REMAIN AS IN REFTELS.
AS NOTED PREVIOUSLY FURTHER INSTRUCTIONS WILL FOLLOW AS
NECESSARY. TALKING POINTS FOR MISSION USE IN COMMENTING
ON ABBOTT'S STATEMENT ON EXCHANGE RATE INSURANCE AT LAST
MEETING WILL FOLLOW BY SEPTEL. VANCE

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